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THE EFFECT OF THE IMPLEMENTATION OF PUBLIC SECTOR ACCOUNTING ON THE QUALITY OF FINANCIAL REPORTS IN TALUN DISTRICT CIREBON REGENCY

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ABSTRACT

***Introduction**: This study is motivated by the importance of financial statement quality as a form of accountability in village financial management and as an essential element in promoting transparency and accountability in public governance. The implementation of public sector accounting is considered a crucial factor in improving the quality of village government financial reports.*
***Methods:** This study aims to examine the effect of public sector accounting implementation on the quality of financial statements in village governments in Talun District, Cirebon Regency. A quantitative approach with a descriptive-associative design was employed in this research. Primary data were collected through questionnaires distributed to 55 village officials directly involved in financial management activities. The sample was selected using purposive sampling techniques. Data analysis was conducted using IBM SPSS simple linear regression.*
***Results:** The findings reveal that the implementation of public sector accounting has a positive and statistically significant effect on financial statement quality, as indicated by a t-value of 2.610 and a significance level of 0.045 (<0.05). These results suggest that better implementation of public sector accounting principles contributes to the production of more reliable, transparent, and accountable financial reports. Therefore, village governments are encouraged to enhance the competence of village officials, strengthen internal control systems, and optimize public sector accounting practices to support the realization of good governance.*

INTRODUCTION

Village financial management plays a crucial role in establishing transparent, accountable and effective public governance. Since the implementation of fiscal decentralization, village governments have been granted broader authority to manage financial resources aimed at supporting development and improving community welfare. In accordance with the Regulation of the Minister of Home Affairs Number 20 of 2018, village financial management should be carried out based on the principles of transparency, accountability, participation, and budgetary discipline. Consequently, village officials are required to prepare and present high-quality financial statements as a form of accountability to both the community and higher levels of government. The reform of the public sector in Indonesia has significantly transformed governmental financial management toward a more transparent and responsible system.

Public sector accounting has become an essential instrument for promoting good governance by providing financial information that is relevant, reliable, comparable, and understandable (Bastian, 2019). Public sector accounting not only serves as a mechanism for recording financial transactions but also functions as a tool for control, evaluation, and accountability in the utilization of public funds (Mardiasmo, 2018).

Talun District, located in Cirebon Regency, consists of eleven villages with varying capacities in managing village finances. The increasing allocation of village funds each year requires village administrations to manage public finances professionally in accordance with Government Accounting Standards regulated under Government Regulation Number 71 of 2010. Nevertheless, several issues related to village financial management remain evident. Audit reports issued by the Supreme Audit Agency Representative Office of West Java identified weaknesses in internal control systems and instances of non-compliance with financial regulations within local governments in Cirebon Regency (BPK, 2010). Moreover, in 2025, residents of Wanasaba Kidul Village staged a public demonstration concerning the alleged lack of transparency in village fund management. These phenomena indicate that the quality of village financial statements remains a critical issue in achieving sound village governance. Previous studies have demonstrated that the implementation of public sector accounting contributes positively to the quality of financial reporting. The implementation of Government Accounting Standards significantly improves the quality of governmental financial statements. Accounting standards and internal control systems positively influence the quality of local government financial reports.

Novandalina & Ernawati (2020) also concluded that effective implementation of public sector accounting enhances transparency and accountability in financial reporting Recent empirical evidence further strengthens this relationship. Anjani et al., (2024) found that the implementation of public sector accounting, supported by competent human resources and an effective government internal control system, significantly improves the quality of local government financial reports. Likewise, Indrayani & Widiastuti (2020) demonstrated that the implementation of government financial accounting systems contributes positively to financial reporting quality, particularly when supported by competent human resources. These findings indicate that the successful implementation of public sector accounting is not only determined by accounting standards but also by institutional capacity and governance practices. However, empirical studies investigating the effect of public sector accounting implementation on the quality of financial statements at the village government level, particularly in Talun District, Cirebon Regency, remain limited.

Therefore, this study aims to examine the effect of public sector accounting implementation on the quality of financial statements in village governments within Talun District, Cirebon Regency. The findings are expected to provide empirical evidence for the development of public sector accounting literature and serve as an evaluation tool for village governments in improving transparent, accountable and good governance-oriented financial management.

LITERATURE REVIEW

Agency Theory

Agency theory explains the contractual relationship between a principal, who delegates authority, and an agent, who is entrusted with carrying out specific responsibilities on behalf of the principal. Jensen and Meckling (1976) argued that an agency relationship arises when decision-making authority is transferred from the principal to the agent. In the context of village governance, the community acts as the principal by granting authority to village officials to manage public resources, while the village government serves as the agent responsible for administering village finances. However, this relationship does not always operate effectively because differences in interests may emerge between the principal and the agent. Such circumstances can lead to agency problems, which occur when the agent fails to act entirely in accordance with the interests of the principal (Deddy Kurniawansyah, Sigit Kurnianto, 2018). These problems are commonly associated with information asymmetry a condition in which village governments possess more information regarding financial management than the public. Consequently an effective reporting and accountability system is required to reduce information gaps and ensure proper oversight.

The implementation of public sector accounting is considered an important mechanism for mitigating agency conflicts. Through an effective accounting system, village governments are able to provide financial reports that are transparent, accountable and understandable to stakeholders. High-quality financial reporting is therefore expected to strengthen public trust and support the achievement of good governance principles within village administrations.

Public Sector Accounting and Financial Statement Quality

Public sector accounting refers to the accounting system employed by government institutions to record, manage, and account for the utilization of public funds. According to Bastian (2019), public sector accounting encompasses a set of accounting techniques and procedures designed to support government financial management while promoting transparency and public accountability. According to Khasanah Uswatun & Nilasari Ayunda Putri, (2023) the implementation of Government Accounting Standards constitutes one of the fundamental requirements for producing financial reports that meet the qualitative characteristics stipulated in public sector accounting regulations. Proper implementation of these standards improves the reliability and credibility of financial information, thereby supporting transparent and accountable governance. Putri et al., (2018) argued that compliance with Government Accounting Standards significantly enhances the quality of local government financial reports because standardized accounting procedures ensure consistency, comparability, and reliability of financial information. Therefore, village governments are expected to consistently implement public sector accounting principles to improve financial reporting quality.

In addition, Mardiasmo (2018) emphasized that public sector accounting serves not merely as a recording mechanism but also as an instrument for planning, controlling, performance evaluation, and public accountability. Within village government administration, the implementation of public sector accounting plays a crucial role in producing high-quality financial statements. Government financial reports are expected to possess qualitative characteristics such as relevance, reliability, comparability, and understandability, as stipulated in Government Regulation Number 71 of 2010 concerning Government Accounting Standards. Financial information that fulfills these characteristics provides stakeholders with a reliable basis for decision-making and for assessing the performance of village governments (BPK, 2010).

The effective application of public sector accounting principles enhances the ability of village governments to produce financial statements that are accurate, transparent, and accountable. Consequently the implementation of public sector accounting is considered a key determinant in improving the quality of financial reporting within village administrations..

Previous Studies and Hypothesis Development

Previous empirical studies have consistently demonstrated that the implementation of public sector accounting is closely associated with the quality of financial reporting. Vina Arnita, Siti Rohaida (2025) reported that the application of Government Accounting Standards significantly improves the quality of local government financial statements. Their findings suggest that greater compliance with accounting standards contributes to the production of more reliable and higher-quality financial reports. Similar evidence was provided by Arini Novandalina (2020) who found that the implementation of public sector accounting, accompanied by effective internal supervision, positively enhances transparency and accountability in government financial reporting. Furthermore Vina Arnita, Siti Rohaida (2025) confirmed that the adoption of government accounting standards supported by an effective internal control system, substantially improves the quality of regional government financial statements.

Mahmudi (2021) also argued that the application of transparency and accountability principles in public sector financial management strengthens the quality of financial information disclosed to the public. From the perspective of agency theory and prior empirical findings the implementation of public sector accounting is expected to reduce information asymmetry between village governments and the community by providing more transparent, accountable, and credible financial reports. Consequently, the more effectively public sector accounting practices are implemented within village administrations, the higher the expected quality of the resulting financial statements. Based on these theoretical arguments and empirical evidence. The findings of Anjani et al. (2024), Indrayani & Widiastuti (2020), Khasanah Uswatun & Nilasari Ayunda Putri (2023) and Putri et al., (2018) consistently indicate that effective implementation of public sector accounting and compliance with Government Accounting Standards improve transparency, accountability, and the quality of government financial reports. These empirical findings reinforce the argument that better implementation of public sector accounting practices will produce higher-quality financial statements in village governments. the following research hypothesis is proposed:

H1: The implementation of public sector accounting has a positive effect on the quality of financial statements in village governments in Talun District, Cirebon Regency.

RESEARCH METHODS

This study employed a quantitative approach with descriptive and associative designs to investigate the effect of public sector accounting implementation on the quality of financial statements in village governments. Quantitative research was selected because it enables researchers to examine causal relationships among variables through statistical analysis. The research was conducted in eleven village administrations located in Talun District, Cirebon Regency, Indonesia. Data collection was carried out from January to April 2026. The research setting comprised village governments in Talun District, namely Cempaka Village, Ciperna Village, Cirebon Girang Village, Kepongpongan Village, Kerandon Village Kecomberan Village, Kubang Village, Sampiran Village Sarwadadi Village, Wanasaba Kidul Village, and Wanasaba Lor Village. The target population consisted of all village officials directly involved in village financial management including village heads, village secretaries, heads of administration and general affairs, heads of financial affairs, and heads of planning affairs.

Sampling was conducted using a purposive sampling technique. This method was chosen because respondents were selected based on specific criteria related to their involvement and understanding of village financial management and financial reporting processes. A total of 55 respondents met the predetermined criteria and were therefore included as research participants. The study involved two variables. The independent variable was the implementation of public sector accounting (X), while the dependent variable was the quality of financial statements (Y). The implementation of public sector accounting was measured through five indicators adapted from Bastian (2019) and Mardiasmo (2018), namely transparency in financial management, accountability in financial reporting, compliance with regulations, accuracy in recording transactions, and presentation of financial reports. Meanwhile, the quality of financial statements was assessed based on the Government Accounting Standards stipulated in Government Regulation No. 71 of 2010, which include relevance, reliability, comparability, understandability, and timeliness.

Primary data were collected through questionnaires distributed directly to respondents. The questionnaire served as the principal research instrument and employed a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). In addition, direct observation was conducted to obtain a comprehensive understanding of financial management practices in village administrations. Documentation techniques were also utilized to collect supporting documents related to village financial reporting. Prior to hypothesis testing, the instrument underwent validity and reliability assessments. The validity test was performed by comparing the calculated correlation coefficient with the critical value, while reliability was examined using Cronbach's Alpha coefficient. An instrument was considered reliable when the Cronbach's Alpha value exceeded 0.60 (Ghozali, 2021).

Data analysis was carried out using IBM SPSS Statistics software. The analytical procedures began with descriptive statistical analysis to describe the characteristics of the research data through minimum values, maximum values, means, and standard deviations. Classical assumption tests were subsequently performed, including normality testing using the Kolmogorov–Smirnov method, heteroscedasticity testing, and multicollinearity testing, to ensure that the regression model satisfied the required statistical assumptions. To examine the effect of public sector accounting implementation on financial statement quality, a simple linear regression model was employed using the following equation:

$$Y = a + bX + e$$

where (Y) denotes the quality of financial statements (alpha) represents the constant term beta indicates the regression coefficient, (X) refers to the implementation of public sector accounting, and (varepsilon) denotes the error term. Hypothesis testing was conducted using the partial t-test with a significance level of 5 percent. Furthermore, the coefficient of determination ((R^2)) was used to evaluate the extent to which the independent variable explained variations in the dependent variable. A higher coefficient of determination indicates a stronger explanatory power of the regression model (Ghozali, 2021).

Regarding research ethics, this study ensured that all respondents participated voluntarily. Prior to completing the questionnaire, respondents were informed about the objectives of the study and were assured that their identities and responses would remain confidential. Ethical principles concerning anonymity, confidentiality, and informed consent were strictly maintained throughout the research process

RESULT AND ANALYSIS

A partial t-test was employed to assess the effect of each independent variable on the dependent variable separately. The hypothesis was tested at a significance level of 5% (α = 0.05). Based on a sample size of 55 observations, the critical t-value was 2.00404. The results of the hypothesis testing are summarized in Table:

Table 1. Partial t-Test Results

Variable	t-value	Significance	Interpretation
Public Sector Accounting	2.610	0.045	Significant Positive Effect

Dependent Variable: Financial Statement Quality
Source: Processed SPSS Version 26 Output (2026)

Hypothesis H1 proposed that public sector accounting has a positive effect on the quality of financial statements. Based on the results presented in Table 4.11, the t-test analysis for the public sector accounting variable produced a t-value of 2.610, which exceeds the critical t-table value of 2.00404. In addition, the significance probability was 0.045, which is lower than the significance level of 0.05. These findings indicate that public sector accounting significantly influences the quality of financial statements. Therefore, the null hypothesis (H0) is rejected, while the alternative hypothesis (H1) is accepted. It can be concluded that the implementation of public sector accounting has a significant effect on financial statement quality. The empirical analysis was conducted in village governments located in Talun District, Cirebon Regency, during the 2024 research period. This study examined two main variables, namely public sector accounting and government accounting systems, in relation to financial statement quality. The partial test results revealed that public sector accounting significantly affects the quality of financial reporting. A detailed explanation of the findings is presented as follows:

The Effect of Public Sector Accounting on Financial Statement Quality

The statistical test demonstrated that the public sector accounting variable generated a t-value of 2.610, which is higher than the critical value of 2.00404. Moreover, the significance value of 0.045 is below the established threshold of 0.05. These results confirm that public sector accounting exerts a significant influence on the quality of financial statements. Consequently, the null hypothesis is rejected and the research hypothesis is supported. The findings are consistent with previous studies conducted by Arini Novandalina (2020) as well as Vina Arnita, Siti Rohaida (2025), both of whom reported that the implementation of public sector accounting positively contributes to improving financial statement quality. Public sector accounting is designed to provide relevant, reliable and comparable information to stakeholders, particularly the public as the primary users of government financial reports. Financial statements prepared under public sector accounting principles are expected to enhance transparency and accountability in the management of public funds.

Within the context of village governments, the adoption of public sector accounting facilitates systematic recording of financial transactions and the preparation of financial reports in accordance with established standards. This practice ultimately improves the quality of financial reporting. As the smallest governmental entity, village administrations are responsible for managing financial resources derived from various sources, including Village Funds Village Fund Allocations (ADD), and Village Own-Source Revenue (PADes). The implementation of public sector accounting in village administrations plays a crucial role in strengthening financial transparency, accountability, and performance evaluation. Proper application of public sector accounting standards enables village financial reports to become more transparent and subject to examination by the Village Consultative Body (BPD) as well as external auditors. Furthermore, standardized accounting practices assist village governments in providing clear accountability regarding the utilization of public funds to both the community and the central government.

CONCLUSION-

This study aimed to examine the effect of public sector accounting implementation on the quality of financial statements in village governments in Talun District, Cirebon Regency. The hypothesis testing results reveal that the implementation of public sector accounting has a positive and significant effect on financial statement quality. The t-test value of 2.610 with a significance level of 0.045 (< 0.05) indicates that the proposed hypothesis (H1) is accepted. These findings suggest that better implementation of public sector accounting principles leads to higher-quality financial reporting within village administrations. The novelty of this study lies in the finding that public sector accounting implementation not only improves the administrative aspects of financial reporting but also enhances transparency, accountability, and public trust in village financial management. Systematic recording procedures, regulatory compliance, and standardized financial reporting practices are found to be essential factors in producing financial statements that are relevant, reliable, comparable, and understandable.

Based on these findings, village governments are encouraged to strengthen the capacity of village officials through continuous training and technical assistance in public sector accounting practices. Furthermore, strengthening internal control systems and optimizing the use of information technology in financial management are recommended to improve the quality of village financial statements. Future studies are expected to incorporate additional variables, such as internal control systems, human resource competence and information technology utilization, while expanding the research scope to different regions to obtain more comprehensive results.

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